



HF 194 – Income Tax Rate Reduction (LSB 1482HV)

Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version – New

Description

[House File 194](#) reduces each of Iowa's nine individual income tax rates by approximately 20.0%, effective tax year 2012. The top rate would be reduced from the current 8.98% to 7.18%.

Assumptions

The results on a tax year basis were produced by the Department of Revenue using an Individual Income Tax Model. That model is based on the actual tax returns of Iowa taxpayers, and the model currently is based on tax year 2008 returns. All but a small portion of individual income tax payments are deposited to the State General Fund.

The impact on FY 2012 will be for a partial year and the impact will be realized through reduced withholding and estimate payments. Fiscal year 2010 withholding deposits from January 25th through the end of the fiscal year along with estimate payment deposits starting February 10th through the end of the fiscal year were summed and then inflated by 4.5% per year for two years. The result was multiplied by the 20.0% rate reduction.

Individual school districts may impose a surtax of up to 20.0% (see Iowa Code Section 298.14) of Iowa individual income taxes owed, prior to any refundable tax credits. Since House File 194 reduces Iowa individual income taxes owed, it also reduces the amount of surtax revenue generated by schools imposing the surtax. The surtax is currently being used by approximately 85.0% of Iowa's 359 school districts.

Fiscal Impact

The tax rate reduction contained in House File 194 is projected to decrease the income tax paid by Iowa taxpayers, including out-of-state returns owing Iowa income tax, by the following amounts:

Reduction in Iowa Income Taxes Owed In Millions of Dollars		
Year	Tax Year	Fiscal Year
2012	\$ 683.3	\$ 330.0
2013	\$ 695.4	\$ 704.1
2014	\$ 746.6	\$ 711.5
2015	\$ 761.1	\$ 750.6

The impact will grow in future fiscal years as Iowa taxable income grows.

In addition, the total tax liability for the Iowa income tax surcharge for schools will decrease approximately \$23.5 million for tax year 2012, with the surtax impact growing each fiscal year as taxable income increases. Faced with the reduced surtax yield, school districts with a surtax rate below the 20.0% maximum may choose to increase the rate and taxpayers would not receive some of the surtax reduction.

Sources

Department of Revenue Individual Income Tax Model
Legislative Services Agency Analysis

/s/ Holly M. Lyons

February 7, 2011

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Iowa Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
